Public Utility Commission of Texas

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Pat Wood, III
Chairman

Robert W. Gee
Commissioner

Judy Walsh
Commissioner

September 27, 1995

DOCKET FILE COPY ORIGINAL

Mr. William F. Caton, Secretary
Federal Communications Commission
1919 M Street, N.W. Room 222
Washington, D.C. 20554

RE: CC Docket No. 95-115 (FCC No. 95-281) In the Matter of Amendment of the Commission's Rules and Policies to Increase Subscribership and Usage of the Public Switched Network

Dear Mr. Caton:

Enclosed herewith for filing with the Commission are an original plus nine copies of the Comments of the Public Utility Commission of Texas in the above-captioned matter.

Also enclosed for filing is a Motion to Accept Late-Filed Comments in this same proceeding.

Please acknowledge receipt by affixing an appropriate notation on the duplicate copy of this letter furnished herewith for that purpose and returning same to the undersigned in the enclosed, self-addressed envelope.

Sincerely,

Paula Mueller
Secretary of the Commission

cc: ITS, Inc.
Ms. Creech, Accounting & Audits

No. of Copies rec'd 0+9
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

FCC No. 95-281

In the Matter of	)	
	)	
Amendment of the Commission's	)	CC Docket No. 95-115
Rules and Policies to Increase	)	
Subscribership and Usage of the	)	
Public Switched Network	)	

MOTION TO ACCEPT LATE-FILED COMMENTS

The Public Utility Commission of Texas ("PUCT") hereby requests the admission of the attached late-filed comments in this proceeding. On July 20, 1995, the Federal Communications Commission (FCC) released the captioned Notice of Proposed Rulemaking (Notice), requesting interested parties to comment on the relevant issues by September 27, 1995.

In July 1994, the PUCT staff worked in cooperation with the LBJ School of Public Affairs at the University of Texas to initiate a graduate study project designed to address many of the same issues upon which the Commission has requested comment in this proceeding. The policy brief of the research project has only this month been published. It is the view of the PUCT that this information should prove useful to the Commission in its evaluation in this proceeding.

Based on the facts that this information has only recently been released, and that the PUCT's first opportunity to formally review the report occurred at its September 27 Open Meeting, the PUCT respectfully requests the admission of these late filed comments in this proceeding.

Respectfully Submitted,

Paula Mueller
Secretary of the Commission

September 27, 1995

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

FCC No. 95-281

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Rules and Policies to Increase	)	
Subscribership and Usage of the	)	
Public Switched Network	)	

COMMENTS OF THE
PUBLIC UTILITY COMMISSION OF TEXAS

On July 20, 1995, the Federal Communications Commission (FCC or Commission) issued the above-captioned Notice of Proposed Rulemaking to examine its rules and policies that may have an impact on subscribership and usage of the public switched network. The Public Utility Commission of Texas (PUCT) applauds the efforts of the FCC to gather information and consider further steps to encourage increased subscribership.

In July 1994, the PUCT staff worked in cooperation with the LBJ School of Public Affairs at the University of Texas to initiate a graduate study project designed to address many of the same issues upon which the Commission has requested comment in this proceeding. The policy brief of the research project has only this month been published. It is the view of the PUCT that this information should prove useful to the Commission in its evaluation in this proceeding.

The PUCT commends the attached study project policy brief, "The Evolution of Universal Service in Texas" to the FCC for inclusion in the review of this issue. The publication of the full report should be completed within the next 60 days, and it will be available from the school. The PUCT will provide copies of the full report to the FCC staff assigned to this proceeding as soon as it becomes available. The conclusions and recommendations of the report are those of the

authors, and cannot be viewed as constraining the PUCT in future decisions or rules relating to the issue of increased subscribership.

Respectfully submitted,

Public Utility Commission of Texas
7800 Shoal Creek Blvd.
Austin, Texas 78757

September 27, 1995

Pat Wood, III
Chairman

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THE EVOLUTION OF UNIVERSAL SERVICE IN TEXAS

by

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Lyndon B. Johnson School of Public Affairs
The University of Texas at Austin
September, 1995

INTRODUCTION

Years from now, August, 1995 may be remembered as the end of the First Communications Revolution, as government and industry finally caved to the inexorable convergence of computers and communications. The era of major television networks dominating the airwaves and shaping viewing tastes ended as two networks became junior partners in new media combinations. The era of the government drawing boundaries between segments of the communications industry came to a close as policymakers finally let local telephone, long distance, and cable companies compete on each others' turf.

This portrayal of history--and it is surely overdrawn--neglects one thing: not everybody has been invited to the revolution. In Texas, 1 out of every 12 households lacks telephone service; nationwide that number is about 1 in 16. These people cannot make a telephone call from the home, much less use the array of new services entering the market. Universal service is not a reality, in spite of a 60 year-old policy commitment to promote affordable telephone service.

The notion of universal service has not been absent from the contemporary debate, notwithstanding the media and pop culture focus on new services and previously inconceivable business alliances. The telecommunications reform bill passed by the U.S. Congress seeks "to accelerate rapidly the private sector deployment of advanced telecommunications and information technologies and services to all Americans by opening all telecommunications markets to competition." Legislation recently enacted in Texas also recognizes the importance of universal service. H.B. 2128 states that "it is the policy of this state to promote diversity of providers and interconnectivity and to encourage a fully competitive telecommunications marketplace while protecting and maintaining the wide availability of high quality telecommunications services at affordable rates."

Even though the policy goals of availability and affordability of advanced services are widely agreed upon, mapping a route to attain them remains a challenge. In an effort to come to grips with universal service issues, the LBJ School of Public Affairs conducted a research project entitled "The Evolution of Universal Service in Texas." The core of the research was a survey of people without phones in Texas. The research strategy was based on the premise that since universal service--availability and affordability--remains a prominent goal in a rapidly changing telecommunications environment, it is important to have detailed knowledge about why some segments of our population do not have telephone service in the home. The survey therefore sought to elicit whether affordability--as opposed to

availability, which is not an issue for plain old telephone service (POTS)--is the primary barrier to having service or whether there are other reasons why a household is phoneless.

The survey found that the primary barriers to phone service are: 1) high reinstallation charges that result from prior disconnection due to outstanding bills, and; 2) the inability to control variable costs of phone service, e.g. long distance calls or other individuals' use of phones in the household. Affordability of basic service is a problem for about one-third of the phoneless population, but apprehension over potentially uncontrollable variable costs is an issue for a large majority of the phoneless population. In other words, even among those who can afford the basic rate for local service, there is a concern that long distance or other variable charges will strain their budgets.

These findings are consistent with recently published research on the phoneless, namely that of Milton Mueller and Jorge Schement of Rutgers University (1995), *Universal Service from the Bottom Up: A Profile of Telephone Access in Camden, New Jersey*, and the Field Research Corporation's *Affordability of Telephone Service*, a 1993 study conducted for Pacific Bell and GTE in California. These studies found long distance and reinstallation charges to be barriers to service. While our research identifies the same factors as barriers to service, it finds that a substantial minority (about one-third) of the phoneless cannot afford basic monthly rates.

As developed later in this report, survey findings suggest that universal service policy should permit the phoneless population to exercise greater **control** over their communications budgets, while ensuring adequate **choice** of communications services.

SURVEY FINDINGS

The LBJ School survey of the phoneless in Texas is the first such research effort in the State of Texas. Surveys were administered in Austin, San Antonio, and several rural towns (Lampassas, Mexia, Gonzales, and Brenham). Roughly 70 percent of those surveyed lived in urban areas, while 30 percent lived in rural areas. 88 percent of respondents had monthly incomes of less than $1,200. 86 percent were heads of households, and 72 percent were women. 22 percent of respondents were white, 47 percent African-American, and 29 percent Hispanic. The project used U.S. Census data to identify tracts in which telephone penetration was low, which also coincided with low-income Census tracts. A survey instrument of about 50 questions (available upon request) was used and 172 surveys were entered into a project database for data analysis.

A summary of the survey findings is as follows:

- A majority of respondents (77 percent) did at one time have telephone service, while 54 percent of those had subscribed to phone service within the past three years. The telephone company was responsible for the bulk of disconnection decisions (71 percent).

- A majority of the phoneless population surveyed (52 percent) answered that it is not the cost of basic service that makes phone service difficult to afford.

- Variable costs of having a phone appear prominent in disconnection situations. 57 percent stated that long distance calls make it difficult to afford service, 14 percent stated 900 number services are a problem, and 47 percent said that problems in controlling who uses the phone makes service affordability difficult.

- When asked about perceptions of cost of local service, a plurality (38 percent) stated that they thought local service cost between $11-$20 per month; the actual average cost of local service in Texas is $16 per month and 80 percent said they could afford that.

- When asked about perceptions of installation costs, 47 percent estimated the cost to be between $21-$60; the actual cost is $39 (with no prior disconnection) which can be spread out over 3 months. Roughly 76 percent stated that they could afford such a plan.

- More than 65 percent of those questioned use the telephone for contacting others. This is accomplished by using a pay phone, or by using the phone of a friend, relative, or neighbor. Most people place two (27 percent) or three (32 percent) personal calls per day on average. Only 0.6 percent of the population answered that they never use a phone.

- While almost 67 percent were knowledgeable of the structure of the phone bill, 68 percent were unaware of such programs as Lifeline that allow low-cost phone service, although 82 percent answered that they would qualify for such a program.

- As for access to other media, 95 percent of those surveyed had a television in their home, 40 percent subscribed to cable, and 5 percent had computers in the home. This finding suggests that the technologies of the information superhighway are gradually being disseminated to low-income stratum of society.

- Among respondents, 75 percent of those surveyed showed an interest in obtaining phone service that only allowed for local calls. When asked about "voice mail" services that require no phone connection, but simply a voice mail account (available in some cities for $5 per month) 51 percent expressed interest in obtaining such a service if it were available.

DISCUSSION

The findings suggest that four *primary inferences* can be drawn from the LBJ School's survey of phoneless people in Texas.

1. The price of basic local telephone service is not the main barrier to phone subscribership among the survey sample. Across several different questions, people consistently demonstrated awareness of the prices of phone installation and monthly local service, and most stated that the magnitudes of those charges is something they could afford.

2. The variable costs of having a phone, as opposed to the fixed cost of installation and monthly service charges, create affordability problems. The survey results indicated that long distance charges were the primary reason for disconnection; respondents also stated that inability to control who uses the phone and control over 900 services come into play in disconnection situations. This inference is consistent with the finding that phoneless people are interested in fixed-cost service limited only to local phone service and/or inexpensive "voice mail" services.

3. Affordability problems arise from high installation charges that result from disconnection due to outstanding bills. It costs $150 for reinstallation due to unpaid bills, and this describes 71 percent of respondents. About half of this group say they would have trouble paying the $150 reinstallation deposit. The reinstallation fee is compounded by the need to pay the outstanding bill, which averages about $190 for those disconnected. A small portion of respondents reported difficulty in affording the regular $39 installation fee.

4. Universal service programs are not well-known among the eligible population. Most of the people surveyed were eligible for telephone assistance programs, but about two-thirds had no knowledge of them.

These primary inferences, in combination with other survey questions, lead to a fifth point that we characterize as a *secondary inference*:

5. People without telephones value communicating and are cognizant of advanced communications services.

People who do not have telephones in the home nonetheless make several phone calls a day, watch TV, read a newspaper (33 percent), and a fair number (40 percent) subscribe to cable TV. Perhaps more surprising is that a few (5 percent) have computers in the home, although obviously the computer is not a communications instrument given the lack of a phone line (although nearly all of our respondents with computers had ones equipped with modems). The important point is that even though these people do not have telephones, they care enough about communicating to devote resources to other communications media. The fact that two-fifths of respondents have cable TV and one in twenty have computers suggests that the technologies associated with the much-vaunted "information superhighway" are slowly diffusing to the lower-income, less technologically sophisticated stratum of society.

A coarse interpretation of the survey findings might be that it would appear that phoneless people can afford local phone service; the fact that they are unaware of the assistance programs that make local service more affordable is hardly a concern. Indeed, reconsideration of Link-Up America or Lifeline programs may be warranted. Such hasty conclusions would miss key elements of the behavior patterns of phoneless people that the survey results reveal. Even though it costs $39 for installation for new service, this applies to individuals who have never been disconnected by the phone company. This describes only 23 percent of our respondents. The remainder would have to pay $150 reinstallation charge and almost half (47 percent) said that they could not afford it.* In short, 36 percent of our respondents (0.77 times 0.47) would not be able to afford phone service because of high reinstallation charges that follow a disconnection by the phone company.

The finding that 95 percent of phoneless people have TVs and 40 percent have cable raises the possibility that since people without phones pay for these discretionary entertainment expenses, society should have little concern over their decision not to spend money on phone service. People without phones should simply rearrange their budgets, such an argument would go, and policy cannot or should not have much to say about it. Yet a consistent finding throughout the survey is that, while affordability of phone service may not be a primary barrier for our sample, control over phone expenses is a significant barrier to long-term access to phone service in the home for our survey respondents. Over half of the respondents had service disconnected because of excessive long distance bills, close to three-fifths stated that long distance bills made affording phone service difficult, and close to half said the inability to control others' use of the phone made affording service difficult. Most tellingly, 75 percent expressed interest in having phone service that is local only, with long distance calls blocked.

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* Some of this group would be eligible for the Lifeline program, which waives the $150 reinstallation fee. We use the figure because it reflects survey results and the fact that many respondents were unaware of Lifeline. Moreover, those whose reinstallation fee is reduced, as the Lifeline program does, would still face paying the outstanding bill, whose total averages about $190 for those who have been disconnected.

We conclude phone calling plans that provide certainty in monthly phone expenses would aid a substantial portion of phoneless people in getting on and staying on the telephone network. Given the desire for certainty in monthly phone expenses, the choice by phoneless people to have cable service and televisions is sensible and understandable. Moreover, a number of respondents expressed other common-sense reasons for having cable service, such as giving kids something to do other than be outside in sometimes dangerous neighborhoods. This finding is consistent with other surveys of phoneless people, such as the Rutgers study of Camden, New Jersey.

POLICY IMPLICATIONS

Policy Goals

About one in twelve Texans do not have telephones and these are the Texans for whom access to telecommunications is and will remain most difficult. Whether it is reasonable to hope that universal service policy--POTS or advanced services--can reach the hardest-to-get 8.5 percent is an important question. Our findings indicate that it is reasonable to expect that with the right changes in policy, ***Texas could increase its phone penetration rate by 2 to 3 percent***. In other words, our survey findings suggest that about one-third of the phoneless population are phoneless because they cannot afford it. This translates into roughly 200,000 households. This is tantamount to saying that the population of one of Texas' 30 Congressional Districts cannot afford phone service. Moreover, if universal service policy responds to the need to ease installation charges for those who have unpaid bills and grant more control over the monthly telephone budget for low-income people, then the 2 to 3 percent penetration rate increase should be an attainable policy goal.

The 2 to 3 percent goal for increased telephone penetration in Texas is arrived at by examining what respondents said when asked whether, 1) they could afford local service, and 2) they could afford $16 per month, the average local rate in Texas. While 40 percent of respondents stated they *could not* afford local service, 80 percent said they *could* afford a basic rate of $16 per month and 76 percent said they *could* afford the $39 installation fee, which can be spread over three months. With 40 percent saying they cannot afford service, but only 20 percent saying they cannot afford $16 per month, we come up with a best guess that one-third have a hard time affording basic local service. If universal service policy has a preference toward getting those who cannot afford local service on the network, as has traditionally been the case, then capturing this segment of the phoneless population might be taken as a reasonable goal. This leads to the calculation of 0.33 (roughly the share of phoneless who cannot afford local service) times 8.5 (the share of the phoneless population in Texas), which yields a 2.8 percent goal. Moreover, in light of the telephone penetration rate nationwide and in other large states, it is not unreasonable to think that Texas can reduce its 8.5 percent phoneless rate by 2 to 3 percent. Nationally, 5.8 percent of Americans are without telephones, and in states comparable in size to Texas such as California, New York, and Florida, the phoneless rates are 4.2 percent, 6.5 percent, and 6.2 percent respectively.

The survey findings suggest, of course, that targeting those who cannot afford local service should not be the primary orientation of universal service policy. If policy can be restructured to take into account uncontrollable usage costs and reinstallation charges, then the goal of a 2 to 3 percent increase in telephone penetration becomes a conservative one.

Policy Principles: Choice and Control

We recommend a **credit card model** for universal service programs that allows low-income people to set limits on their monthly expenditure for communications services. This recommendation is grounded on the following universal service policy principles that we abstract from the survey:

1. **Control** over the monthly communications budget is of utmost importance to the phoneless population in order to alleviate *apprehension* over the variable costs of phone service.
2. **Choice** over service offerings is as important to the phoneless population as it is to those who use the telephone network. The phoneless currently exercise choice in communications services, as seen in television and cable TV penetration among respondents, and express interest in other fixed-outlay services such as voice mail and pagers.

Crafted correctly, the credit card model would address the problem of future disconnection of at-risk populations by giving people a fixed budget--a phone credit limit if you will--beyond which they could not spend on a monthly basis. With the amount of spending limited electronically, phone companies could be required to eliminate high installation charges for those who have been disconnected for non-payment in the past. The phone company's risk of having the individual run up large bills is eliminated by the phone credit limit. Such a plan responds directly to survey findings that show that three-quarters of respondents would be interested in subscribing to local service only--an indication that phoneless people would welcome a fixed-budget plan that gives certainty in monthly outlays for phone service.

We also envision the credit card model as a mechanism to facilitate participation in the information superhighway for low-income people currently without phones and possibly those who have phones but may find affording new services difficult. Let's say that the credit card method constitutes a $25 voucher for qualified phoneless people--enough to cover local service ($16) and $9 for other services. Long distance is the obvious candidate for the $9 expenditure, but expenditures on other services are conceivable. A local community center may have an Internet access kiosk that requires a fee for usage. Similarly, a cable system may offer Internet access that costs more than the basic package to which someone may subscribe. The extra $9 could help defray the cost of access to that service.

The concept of choice bears emphasis here. Toll-blocking is currently feasible for phone subscribers, and it would give poor people the control that they need--long distance calls can simply not be made from the subscriber's phone. But this sort of control comes at the expense of choice. If the subscriber has the extra $9 per month available for communications needs, then toll blocking prevents them from benefiting from increasing competition in the long distance market for their dollars, as well as other information services.

In short, the credit card model recognizes that competition is entering into the marketplace for communications. With multiple services and multiple providers, universal service policy must adapt by providing access to the emerging variety of services and vendors, rather than being limited to access to POTS from a single provider.

The credit card model for universal service policy would certainly need greater study and development--the technological feasibility is an obvious candidate for additional inquiry. Yet the timing for introducing this line of thinking into universal service policy seems good. As the telecommunications and cable industries seek ways to be draw customers into advanced interactive services, the technologies for access to and billing for those services may be similar to those used for a credit card model for universal service policy. Not only would the presently phoneless have access to the network, they also would have equal access and similar levels of customer service as the current information "haves." Given growing interest in electronic benefits transfer (EBT) for social service delivery, the credit card model appears consistent with a strain of thinking within government that seeks to use information technology to promote widespread access to and more efficient delivery of government services and information. Whether the credit card model is adopted, the LBJ School's survey of phoneless people in Texas indicates that whatever strategy to promote universal access is adopted, it must address reinstallation charges and

control over phone expenditures for individuals, while allowing low-income consumers the choice that the broader population enjoys in emerging telecommunication services.

ACKNOWLEDGMENTS

This research was a policy research project at the LBJ School of Public Affairs at the University of Texas at Austin in which a team of graduate students conducted the survey under the direction of Horrigan, Rhodes, and the late Susan G. Hadden. The research was done with the cooperation of the Public Utility Commission of Texas and Southwestern Bell Telephone. Funding came from Southwestern Bell.

The research was conceived by Susan Hadden and she was its driving force until her death in January, 1995. Her vision of truly universal access to advanced telecommunications services--switched broadband capability to every home--remains an inspiration to us. We dedicate this work to her.